Schroders

European SRI Transparency Code

Schroder ISF Sustainable Asian Equity

March 2022

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The European SRI Transparency logo signifies that Schroders commits to provide accurate, adequate and timely information to enable stakeholders, in particular consumers, to understand the Sustainable Responsible Investment (SRI) policies and practices relating to the fund. Detailed information about the European SRI Transparency Code can be found on www.eurosif.org, and information of the SRI policies and practices of Schroder ISF Sustainable Asian Equity can be found at www.schroders.lu/sustainability. The Transparency Code is managed by Eurosif, an independent organisation.

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Statement of Commitment

Sustainable and Responsible Investing (SRI) is an essential part of the strategic positioning and behaviour of Schroder Investment Management Limited ('Schroders'). We have been involved in SRI since 2000 and welcome the European SRI Transparency Code.

This is our first statement of commitment and covers the period 12 months from approval. Our full response to the European SRI Transparency Code can be accessed below and is available in the annual report of the retail funds and on our website.

Compliance with the Transparency Code

Schroders is committed to transparency and we believe that we are as transparent as possible given the regulatory and competitive environments that exist in the countries in which we operate. Schroders Investment Management meets the full recommendations of the European SRI Transparency Code without any exception.

March 2022

Section 1 List of funds covered by the Code

Fund name:

– Schroder ISF Sustainable Asian Equity

Dominant/preferred SRI strategy (Please choose a maximum of two strategies):

– **Sustainability themed**: investment in themes or assets linked to the development of sustainability. Thematic funds focus on specific or multiple issues related to ESG. Sustainability Themed Investments inherently contribute to addressing social and/or environmental challenges, such as climate change, eco-efficiency and health. Funds are required to perform an ESG analysis or screening of investments in order to come under this category.

– **Exclusion of Holdings from Investment Universe**: an approach that excludes specific investments or classes of investment from the investible universe, such as companies, sectors or countries. This approach systematically excludes companies, sectors or countries from the permissible investment universe if they are involved in certain activities based on specific criteria. Common criteria include weapons, pornography, tobacco and animal testing. Exclusions can be imposed at the individual fund or mandate level, but also increasingly at the asset manager or asset owner level, across the entire product range of assets. This approach is also referred to as ethical or values-based exclusion, as exclusion criteria are typically based on the choices made by asset managers or asset owners.

– **Integration of ESG Factors into Financial Analysis**: the explicit inclusion by asset managers of ESG risks and opportunities in traditional financial analysis and investment decisions based on a systematic process and appropriate research sources. This category covers explicit consideration of ESG factors alongside financial factors in the mainstream analysis of investments. The integration process focuses on the potential impact of ESG issues on company financials (positive and negative), which in turn may affect the investment decision.

Asset class:

Actively managed

☐ International shares

Exclusions:

– Adult entertainment

– Alcohol

– Anti-Personnel Landmines

– Biological Weapons

– Chemical Weapons

– Civilian firearms

– Cluster Munitions

– Conventional weapons

– Fossil fuel extraction and production

– Gambling

– Nuclear weapons

– Tobacco

– UNGC violators

– Utilities

Fund capital as at 30 September 2021:

– USD 153.59 million

Links to relevant documents:

– KIID: https://www.schroders.com/getfunddocument/?oid=1.9.2858981

– Prospectus: https://www.schroders.com/getfunddocument/?oid=1.9.1755

– Annual report: http://www.schroders.com/getfunddocument?oid=1.9.49335

– Semi Annual report: http://www.schroders.com/getfunddocument?oid=1.9.25163

– Fund fact sheet: https://www.schroders.com/getfunddocument/?oid=1.9.4263600

– Financial and non-financial reporting: http://www.schroders.com/en/lu/professional-investor/literature/legal-documents/

Section 2 General information about the fund management company

2.1 Name of the of the fund management company that manages the applicant fund

Schroder Investment Management Limited

2.2 What are the company's track record and principles when it comes to integrating SRI into its processes?

At Schroders, responsible investment principles drive our investment decisions and the way we manage funds. We see ourselves as long-term stewards of our clients' capital and this philosophy naturally leads us to focus on the long-term prospects of the companies in which we invest. We believe successful investment is intrinsically linked to identifying, understanding and incorporating the effects of environmental, social and governance (ESG) trends in our decisions and ownership.

Schroders has been incorporating ESG considerations into our fundamental research and security selection process for more than 20 years. We published our first Corporate Governance policy in 1998, followed by our Responsible Investment policy in 2001. Since then, the information and tools available to us, our resources, the depth of our expertise and our approach to integrating Responsible Investment principles has evolved, but our commitment has remained the same: to be active owners of the companies in which we invest and to reflect ESG factors as part of our overall investment process.

We have a dedicated Sustainability webpage (http://www.schroders.com/en/about-us/sustainability/) which contains the following:

- Schroders' ESG Policy
- Statement of intent to become a signatory of the UK Stewardship code
- Statement of compliance with the UN Principles for Responsible Investment
- Details of industry involvement
- Quarterly Sustainable Investment Report – Current ESG related topics and thematic research, engagements details, voting details
- Annual Sustainable Investment Report – This outlines our approach to ESG Integration, policy details, current ESG related topics and thematic research, engagements details, voting and governance details, general statistics and AUMs, details of industry involvement
- Information on screening and firm-wide exclusions
- Sustainability insights on a range of environmental, social and governance topics
- Historical voting reports

2.3 How does the company formalise its sustainable investment process?

Schroders has a global ESG policy for listed assets. This outlines our principles and practices around sustainability, and reflects our commitment to responsible investment. It covers how we integrate ESG considerations as part of the overall investment process, our engagement process and rationale, our voting policy and our core corporate governance principles when determining how to vote.

2.4 How are ESG risks and opportunities – including those linked to climate change – understood/taken into account by the company?

While ESG issues are sometimes difficult to quantify, we recognise that these factors can have a material impact on a company's performance both in the short and long term, as well as the inherent risk of investing in a company. We firmly believe that analysing a company's exposure to, and management of, ESG factors, in addition to traditional financial analysis, will enhance our understanding of a company's fair value and ability to deliver sustainable returns.

Our integration approach spans the breadth of the ownership lifecycle, from identifying trends and analysing companies, through to ownership, engagement, voting and reporting.

We believe that climate change will be a defining driver of the global economy, society and financial markets over the coming years, decades and beyond. Whether the global economy is rebuilt on less carbon intensive foundations or the temperature continues to rise, investors will be unable to avoid its impacts.

Our Sustainable Investment team produces dedicated research on the topic; our first report was in 2003 and we have published consistently since then, examining both sector-specific and portfolio level issues. Ultimately we are looking to provide tools for asset owners, portfolio managers and analysts to understand this complex issue.

In July 2017, we launched our Climate Progress Dashboard. This monitors 12 indicators to show the progress governments and industries around the world are making towards decarbonising the global economy. It compares projections made by international organisations to estimate the temperature change implied by the progress in each area. Together, they suggest that we are heading for a rise closer to 4° than the 2° commitment global leaders made in Paris in 2015. More information can be found at https://www.schroders.com/en/about-us/corporate-responsibility/sustainability/climate-progress-dashboard/.

We have examined the extent to which company profits and investor returns could be at risk from tougher climate policies and higher carbon prices. Our Carbon Value at Risk model shows that almost half of listed global companies would face a rise or fall of more than 20% in earnings if carbon prices rose to $100 a tonne (for further details see: http://www.schroders.com/en/about-us/corporate-responsibility/sustainability/climate-progress-dashboard/carbon-var/). We have also looked at how falling demand will impact the profitability and the fate of fossil fuel producers. Our analysis shows that up to 20% of listed companies' cash flows are at risk if policies strengthen in line with political commitments (for further details see: http://www.schroders.com/en/about-us/corporate-responsibility/sustainability/climate-progress-dashboard/fossil-fuel-producers/).

We have also developed a proprietary model to help our analysts, fund managers and clients measure and manage the physical risks climate change poses. We ask "what would it cost a company to insure against physical risks caused by climate change for the remaining life of their assets?" The costs to most global companies are less than 5% of their current market value, but are higher for the most exposed companies. While smaller than the risks posed by carbon pricing or changes in demand growth, the impact is clearly significant and more certain. For further information, please see: https://www.schroders.com/en/sysglobalassets/digital/insights/2018/thought-leadership/climate-change---the-forgotten-physical-risks_final.pdf/.

In December 2021, we published our Climate Transition Action Plan (CTAP) in a demonstration of our commitment to use our capital as a force for good in the battle against climate change. It contains the goals we have submitted to the Science Based Targets initiative (SBTi), that require us to reduce the temperature alignment of our clients' portfolios from 2.9ºC currently, to 2.2ºC in 2030, and finally 1.5ºC by 2040.

2.5 How many employees are directly involved in the company's sustainable investment activity?

Schroders has an experienced and well-resourced Sustainable Investment team, which has been embedded as part of our overall investment processes for some time. The team comprises 20 dedicated ESG professionals (as at 31 December 2020) who are responsible for ESG specialist engagement, voting and facilitating ESG integration into the investment process across teams and asset classes, ESG data management, sustainability client reporting, and product development.t. Together they have more than 190 years' combined investment experience.

2.6 Is the company involved in any responsible investment initiatives?

Yes. Schroders continues to support, and collaborate with, several industry groups, organisations and initiatives. These are important in improving sustainability standards across sectors, establishing a consistent dialogue with companies and in promoting the ongoing development and recognition of ESG within the investment industry. We also work with organisations that we are members of, and with national and regional trade associations to develop their submissions on various regulatory issues around the world.

We believe that working with peers and policy makers on ESG issues is an important activity and regularly respond to public consultations both as a firm and through our work with investor groups.

Schroders is also an active member of a number of investor groups focused on promoting ESG and dealing with specific issues or industries.

Below we provide examples of some of these important initiatives.

General Initiatives	Environmental/Climate Initiatives	Social Initiatives	Governance Initiatives
– United Nations Global Compact (UNGC) – EFAMA Responsible Investment Working Group – Principles For Responsible Investment (PRI) – UKSIF – EuroSIF – Swiss Sustainable Finance – Responsible Investment Association Australasia (RIAA) – Investment Association Sustainability and Responsible Investment Committee – Investor Forum – Financial Reporting Council – Focusing Capital on the Long Term	– Net Zero Asset Managers Initiative – CDP Climate Change – CDP Water – CDP Forest – 'Aiming for A' investor coalition – Climate Action 100+ – Transition Pathway Initiative (TPI) – Global Real Estate Sustainability Benchmark (GRESB) – Better Building Partnerships – Paris Pledge for Action – Powering Past Coal Alliance Finance Principles	– Access to Medicine Index – Coalition for Inclusive Capitalism – ShareAction Workforce Disclosure Initiative – Farm Animal Investment Risk & Return (FAIRR) – Investor Alliance for Human Rights – Votes Against Slavery (VAS)	– ICGN International Corporate Governance Network – Asian Corporate Governance Association – UK Corporate Governance Forum – Institute of Business Ethics – Eumedion

2.7 What is the total number of SRI assets under the company's management?

Schroders fully supports the following international conventions:

– The Convention on Cluster Munitions (2008): prohibits the production, stockpiling, transfer and use of cluster munitions

– The Anti-Personnel Landmines Treaty (1997), also known as The Ottawa Treaty (1997): prohibits the production, stockpiling, transfer and use of anti-personnel landmines

– The Chemical Weapons Convention (1997): prohibits the use, stockpiling, production and transfer of chemical weapons

– Biological Weapons Convention (1975): prohibits the use, stockpiling, production and transfer of biological weapons.

We will not knowingly hold any security that is involved in the production, stockpiling, transfer and use of these weapons. We do not exclude those companies whose business activities or products only have the potential to be used for these purposes, or where these activities or products have not been undertaken or created with these uses in mind. Schroders will apply this policy to all Schroders funds that we directly manage. As of 30 September 2021, Schroders managed £716.9 billion (€834.0 billion/$966.7 billion) of assets globally.

We recognise that there are different approaches under the broad ESG/SRI umbrella with different definitions, goals and objectives. Across the assets that we manage, we identify whether they are Screened, Integrated and/or Sustainable. The categories are not mutually exclusive.

Screened means the fund or mandate includes negative screening beyond our firm-wide exclusions outlined above. We implement a wide range of negative screens and exclusions according to specific ethical criteria requested by our clients. As at 31 December 2021, we managed £105.0 billion (€122.2 billion/$141.6 billion) of assets to which such ethical screens are applied.

Integrated means sustainability is a building block of the investment process. It is robust, systematic and there is a commitment to engagement and stewardship. We seek to integrate ESG considerations across all of our investment desks. As of 31 December 2020, Schroders has fully integrated ESG across its internally, actively managed assets.

Sustainable means sustainability is a cornerstone of the investment process. The resulting portfolio has a strong sustainability profile, focused on generating returns that can truly be maintained over the long term. As of 31 December 2021, Schroders managed over £60.0 billion (€69.8 billion/$80.9 billion) of sustainable assets.

Section 3 General information about the SRI fund that comes under the scope of the Code

3.1 What is (are) the fund(s) aiming to achieve by integrating ESG factors?

The strategy aims to deliver capital growth through an actively-managed Asia Pacific ex Japan equity portfolio grounded in sustainability characteristics, focusing on "**Sustainable Companies**" as well as "**Sustainable Living**" companies.

We define **"Sustainable Companies"** as companies which possess superior stakeholder relationships and superior/improving ROIC profiles.

We define **"Sustainable Living"** companies as companies which are contributing positively to the Planet, People, and Society.

- **Planet:** Companies involved in mitigating the impact of climate change on the planet or ensuring sustainable use of the planet's resources. These could be companies involved in renewable energy generation or the transition away from traditional fossil fuels, as well as companies which minimise deforestation for production of raw materials. Companies involved in carbon capture and storage technology, hydrogen and fuel cell technology, or in the supply chain of energy-efficient mobility solutions (EVs, batteries etc.) would also be considered under this category.
- **People and Society:** Companies which raise the standard of living for its consumers or the broader society which it operates in. These could be companies which pursue innovation (particularly in technology or investing in R&D) which improves productivity, provide healthcare, facilitate education, or promote physical fitness/mental wellbeing.

3.2 What internal or external resources are used for ESG evaluation of the issuers who make up the investment universe of the fund(s)?

Investment analysts are required to include ESG analysis within their research. Working across sector lines, the Sustainable Investment Analysts will advise equity analysts as to the most material issues, but the final conclusions are incorporated into their recommendations. All company engagements conducted outside the Sustainable Investment team are stored and shared on the same research database. These engagements may provide a catalyst for further research discussions with the Sustainable Investment team.

Investment desks often conduct their own ESG analysis as part of their overall investment process on issues and themes that they view as relevant. Sustainable Investment Analysts often consult on this work, and will then help to share it across asset classes and geographies. All of our research is stored on a central research database, and is easily shared.

Investment teams publish thought leadership on ESG issues and how they relate to their products and asset class, which is in turn incorporated into the quarterly or annual Sustainable Investment team reporting as case studies. We use information from several external ESG research firms, but only ever as one input into our own company assessments to be questioned, examined and built on.

Our Sustainable Investment team has extensive networks within its respective field. Information is drawn from publicly available corporate information and company meetings, from broker reports, industry bodies, and research organisations, think tanks, legislators, consultants, Non-Governmental Organisations and academics; wherever it is felt the information would add value.

Third party research is used by the team as a secondary consideration, and often provides a source of challenge or endorsement for our proprietary view. It serves also to indicate where consensus sits, given that a majority of our competitors systematically utilise third party research conclusions and ratings within their processes. Sector analysts also use third-party research to support their assessment of ESG issues when analysing companies. We currently subscribe to the following external ESG research providers: MSCI ESG research, Bloomberg, EIRiS, Thomson Reuters Asset4 and CDP. In addition, we subscribe to Institutional Shareholder Services (ISS) and Association of British Insurers' Institutional Voting Information Service for our proxy voting research.

3.3 What ESG criteria are taken into account by the fund(s)?

We believe that equity markets are not efficient in Asia and to generate alpha over the long term, the best approach is to focus on fundamental bottom-up stock analysis. In particular, we believe the future trend in a company's return on invested capital (ROIC) can reflect the attractiveness and sustainability of its business model and serve as a predictor of long term shareholder returns.

Our Shareholder Return Classification (SRC) approach, which focuses on the ROIC profile of a business, was adopted nearly 20 years ago as the main lens through which we assess the strength and sustainability of a company's franchise. Utilising our SRC framework to judge the relative attraction of different businesses, we aim to invest in mispriced assets that have an improving or 'Superior' SRC, while avoiding 'Negative Transition' or 'Inferior' businesses which often represent value traps. ESG is integral in this analysis.

ESG is fully integrated throughout our investment process. With sustainability of a company's business model being the key focus of our analysis, much of the current ESG culture is already embedded in our SRC philosophy. We believe that relying on ratings or quantitative screens risks is oversimplifying ESG considerations. Our analysts are responsible for assessing ESG risks and opportunities, as we believe they are best placed to understand their companies and determine the impact of ESG issues on the sustainability of the business. Furthermore, we believe engagement plays a crucial role in the investment process as our interests as shareholders and those of the communities in which our companies operate in are inextricably linked.

Underpinning our approach is a disciplined valuation framework to determine fair value estimates for the companies we cover and a focus on asymmetric risk to assess the risk-reward outlook around our base case assumptions.

Following are ESG exclusions set out in this strategy:

Environmental exclusions

Excluded activity	Exclusionary criteria
Fossil Fuels extraction and production Conventional oil and gas Unconventional oil and gas Thermal coal	≥5% revenue Complete Carbon Underground 200 list
Utilities Thermal coal and oil power generation Oil power generation	≥10% combined power generation

Material ESG misconduct/controversy

Excluded activity	Exclusionary criteria
UNGC	Violator of UNGC principles (MSCI controversies data)

Social exclusions

Excluded activity	Exclusionary criteria
Alcohol	≥10% revenue
Tobacco	≥5% revenue
Gambling	≥5% revenue
Adult Entertainment	≥5% revenue
Conventional Weapons	≥10% revenue
Civilian Firearms	≥10% revenue
Controversial Weapons Biological/Chemical weapons Cluster munitions, depleted uranium, landmines	>0% revenue Any tie
Nuclear Weapons	≥5% revenue

Source: Schroders

3.4 What principles and criteria linked to climate change are taken into account in the fund?

From an Asian equity perspective, our consideration of environmental risks (including carbon footprints and its implication on sustainability of business models), as well as other sustainability factors, forms a critical part of our bottom-up driven approach to investing. We believe the integration of ESG analysis, including environmental risks assessment, into our investment process is both pragmatic and effective.

We have listed specific environmental exclusions in the previous response above. For more information on how we analyse climate risks in our fund, please refer to Question 4.2 below.

3.5 What is the ESG analysis and evaluation methodology of the fund manager/fund management company (how is the investment universe built, what rating scale is used etc.)?

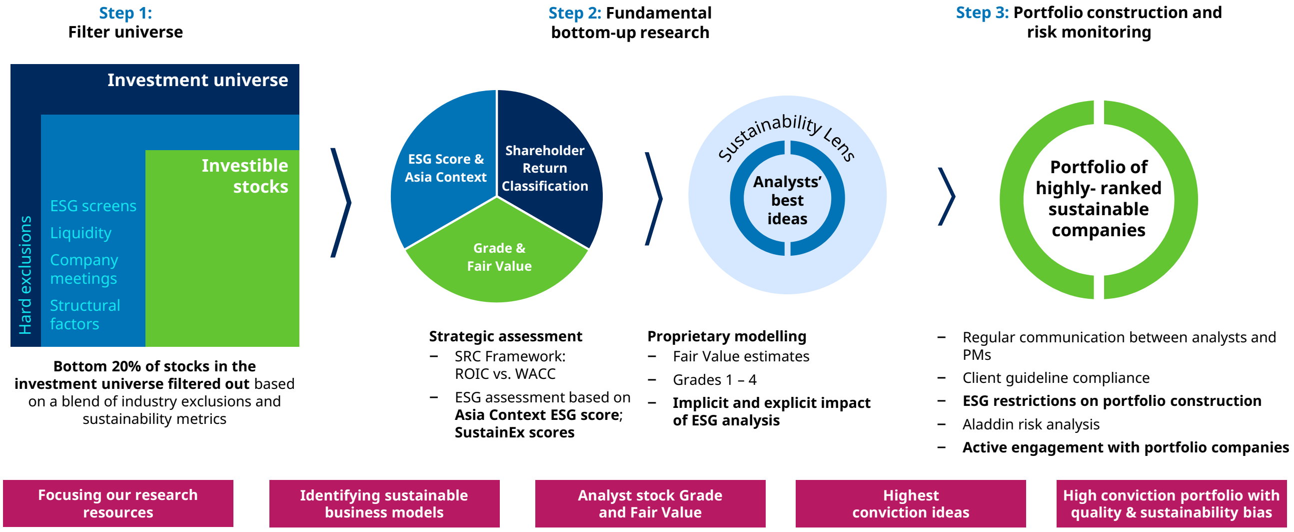
The Sustainable Asian Equity strategy is managed using a team approach with individual accountability and in accordance with our disciplined and repeatable investment process, leveraging proprietary long term, fundamental, bottom up research. Integral to this process is the fundamental research undertaken by Schroders' locally based analysts, which is supplemented by our global research resources. The depth of our in-house research output, coupled with the experience of our fund management team, ensures the continued success of our investment process.

We believe that equity markets are not efficient in Asia and to generate alpha over the long term, the best approach is to focus on fundamental bottom-up stock analysis. In particular, we believe the future trend in a company's return on invested capital (ROIC) can reflect the attractiveness and sustainability of its business model and serve as a predictor of long-term shareholder returns.

Our Shareholder Return Classification (SRC) approach, which focuses on the ROIC profile of a business, was adopted nearly 20 years ago as the main lens through which we assess the strength and sustainability of a company's franchise. Utilising our SRC framework to judge the relative attraction of different businesses, we aim to invest in mispriced assets that have an improving or 'Superior' SRC, while avoiding 'Negative Transition' or 'Inferior' businesses which often represent value traps.

Underpinning our approach is a disciplined valuation framework to determine fair value estimates for the companies we cover and a focus on asymmetric risk to assess the risk-reward outlook around our base case assumptions. ESG is integral in this analysis.

The diagram below illustrates the main features of the investment process:



Source: Schroders, for information purposes only.

Our disciplined and repeatable investment process consists of **three main steps**:

– Step 1 – Fundamental Research

– Step 2 – Portfolio Construction

– Step 3 – Portfolio Implementation.

Step 1 – Filter Investment Universe

Our stock selection process begins with the employment of hard exclusions to the investment universe, excluding companies exposed to activities like alcohol, gambling, fossil fuel extraction/production above a certain revenue threshold (detailed in Section 1). Concurrently, we will also exclude the bottom quintile of stocks in the investment universe which screens poorly on a combination of our proprietary tools (primarily SustainEx) and external ratings (MSCI).

This is then followed by the application of quantitative and qualitative screens.

The quantitative screens filter out stocks that would be inadmissible to a portfolio based on size (market capitalisation) and liquidity alone.

The qualitative screening incorporates an ESG filter to exclude companies that we consider would be detrimental to portfolios in the medium to long term as a result of weak business models, weak or untrustworthy corporate governance or as a consequence of their exposure to activities that impose an unacceptable (and therefore unsustainable) cost on society or the environment. In short, we are screening out companies that we are very unlikely to buy under any circumstance. These are companies that do not merit formal research coverage by our analysts and are being excluded on the premise of the sector they operate in (coal mining and tobacco for example) and or reputation and track-record of the controlling shareholder or management. This qualitative part of the screening is underpinned by the knowledge and experience that our team has acquired over several decades of analysing and investing in Asian equities. This initial filtering enables our analysts to focus on the stocks that offer sufficient liquidity and which can underpin portfolio performance over the longer term.

New idea generation is derived from a variety of sources coming from both analysts and fund managers. In many instances, an idea is the fallout of research during the strategic assessment of a company, as well as its competitors and the industry they collectively operate in.

Step 2 – Fundamental Bottom-up Research

There are three components to our fundamental bottom-up research process:

Strategic Assessment

The strategic assessment process involves an in-depth review of the company and the industry dynamics within which a company operates. At the industry level, we seek to identify potential industry developments, focusing on competition, barriers to entry, bargaining power of buyers and suppliers, as well as the threat of substitution (Porter's 5 forces) amongst other things. As part of our analysis, we form a picture of how different companies may be positioned within the longer-term structure of each industry. Analysts conduct fundamental research in their area of sector coverage, which involves competitor analysis, assessment of management quality, financial analysis and determining earnings forecasts, as well as an intensive program of more than 2,300 company contacts in the Asia Pacific ex-Japan region (in CY 2020). The evaluation of these factors is used to embed a long-term bias into the portfolio by setting the framework within which analysts evaluate a company. We believe that this is a crucial part of the process to gain valuable insight into companies and their key issues.

The Schroders Group's global resources can be leveraged to understand the dynamics of industries operating within a global context. Our proprietary intranet-based Research Portal Nexus, populated and shared by our investment professionals around the world, provides a unique tool for the ongoing monitoring of changes to global industry structures.

In analysing companies as part of the strategic assessment, we seek to determine the drivers of a company's specific returns and the corresponding catalysts for improvement and/or deterioration to evaluate the long-term sustainability of those returns. We consider two important elements in this analysis:

Scarce resources: This involves identifying the resources which the company controls that support its industry positioning and determines the factors driving any competitive advantage held by the firm. We then establish whether they are sustainable, and how easily these resources can be replicated by competitors. The level to which management has identified these resources and seek to leverage them in their stated strategy is a key element in the process.

Execution capability: this process aims to measure the efficiency in which a firm performs at the fundamental and operational level. We use tools such as DuPont analysis to ascertain the level to which a firm has converted its competitive position and scarce resources into superior performance.

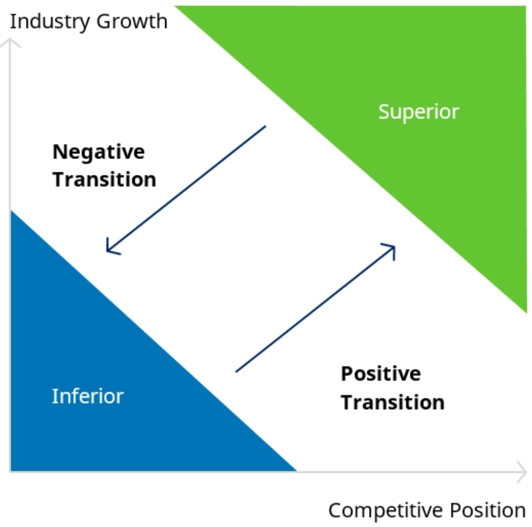
Shareholder Return Classification of Stocks

In conducting the long-term assessment of a company and in seeking to define the long-term prospects of a company, stocks are classified into one of four categories within our proprietary Shareholder Return Classification (SRC) framework. By evaluating companies based on these classifications, as shown in the table below, we encourage a long term and structural perspective. This underpins the stock selection and portfolio construction process as we seek to invest in companies that will grow shareholder value over time.

A brief introduction to our Shareholder Return Classification
We believe return on invested capital (ROIC) is a more effective measure of corporate performance than more typical headline metrics such as EPS growth, as it ties the balance sheet and profit and loss account together. We have a clear focus on the long-term ROIC trend, utilising a shareholder return classification framework to judge the relative attraction of different businesses. We aim to invest in mispriced assets that have an improving or 'Superior' SRC, while avoiding 'Negative Transition' or 'Inferior' businesses which often represent value traps. This longstanding process has been back tested with market data and has also proven to offer superior investment returns in our portfolios over many years.

Chart: Shareholder Return Classification framework

Structured approach to mapping corporate execution vs equity valuations



Classification	Company Characteristics
Superior	▪ ROIC > WACC and stable/rising ▪ Sustainable earnings growth trajectory*
Positive Transition	▪ ROIC < WACC but improving to a positive spread ▪ Earnings recovering from low returns, on track for sustainable growth*
Negative Transition	▪ ROIC > WACC but deteriorating ▪ Sustainability of earnings showing signs of weakening, likely to see earnings erosion*
Inferior	▪ ROIC < WACC and not improving ▪ Earnings unable to cover the cost of investment, unlikely to see improvement*

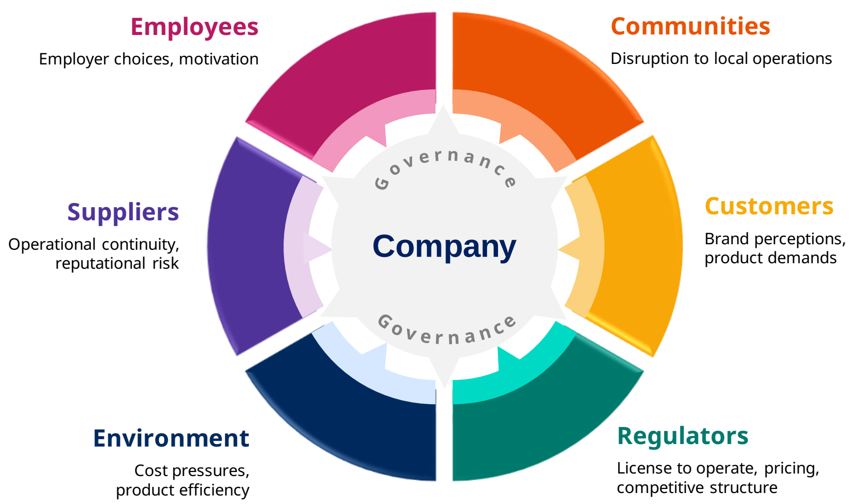
Note: ROIC is the Return on Investment Capital and WACC is the Weighted Average Cost of Capital.
* In cases where the use of ROIC is not feasible (e.g. banks, REITs), these alternative factors are used as supplements to our analysts
Source: Schroders, for information purposes only.

Given an appropriate valuation, we favour those stocks classified as Superior or Positive Transition for portfolios. The aim is to increase the emphasis on spotting turnaround stories (both positive and negative). Specifically, we seek to identify and sell Superior companies before they are Negative Transition companies and buy those companies where the ROIC is below WACC but is expected to trend upwards (Inferior changing to Positive Transition companies). The SRC framework focuses our analysis on long-term dynamics, enhancing our awareness of strategic developments impacting companies and the broader industry. Identifying these longer-term trends and the beneficiaries at the stock level, we believe leads to superior stock selection.

ESG plays a critical and integrated role in our investment process and is inextricably linked to our SRC assessment. To provide structure to our ESG analysis, we utilize our Asia Context ESG template (referred to as Asia Context). The Asia Context template is based on the ESG Context model and Stakeholder framework devised by the Schroder's Sustainable Investment team. Our ESG analysis can be summarised in the following four steps:

1. **Analysts rate six individual stakeholder categories.** By answering/scoring approximately five questions per category and discussing issues of materiality, analysts place a qualitative rating on the six stakeholder categories of Governance & Management, Regulators & Governments, Environment, Employees, Customers and Suppliers.

Chart: CONTEXT framework – Stakeholder analysis provides insights into managing change



Source: Schroders.

The responses to the questions help guide the rating that the analyst assigns to each stakeholder category but there is no direct mathematical link. This is so analysts can still assign a rating to a particular category based on one overwhelming issue, if such materiality exists. The questions are standard across all industries and so analysts have the option of adding a final question for each stakeholder should they believe there is a material company-specific issue that has not been addressed by the other questions and which they feel does influence the stakeholder rating. The questions and the overall stakeholder categories are given a qualitative rating ranging from "Very Weak" to 'Very Strong'. We do not apply the same process to the stakeholder category of Local Communities and have instead fixed this score as "Moderate" for all companies.

It must be stressed that we are adopting an absolute scoring mindset when assessing companies and not a sector relative approach. So even the best operator in a pollutive industry will still end up with an 'E' score of 'Weak' or 'Very Weak'. This is a clear contrast to the external ESG rating systems (MSCI and others), but we believe our approach is more in line with what our clients expect when they think about ESG risk exposures in portfolios.

Chart: Example (blank) of an individual stakeholder score

Governance & Management	Moderate
Capital allocation: is payout ratio adequate, has it increased/ decreased in last 3Y, evidence of unwarranted cap raise or poor investment/ M&A?	Moderate
S/holder structure: could the current structure propose risks to minorities (VIE, SoE, effective poison pills, risk re related party transactions => weak or v weak)?	Moderate
Board structure: are minorities adequately protected by independent BoDs, CEO & Chairman separate, tenure/ jobs for the boys?	Moderate
Management incentive: are incentives & KPIs appropriate (explicit ESG metrics, long-term ROIC = v good, volume mkt share = v weak)?	Moderate
Management quality: consider accessibility, communication, accounting practices (red flags), appropriate tax paid, auditor credibility/churn?	Moderate
Stock or Industry specific issues: please score/rank here & elaborate below [not covered by above]	
Offer your view on what is material from a Governance/ Management perspective, both positive and negative, and how this impacts your long term ROIC forecast. Explain scoring on material issues. Point 1: Point 2: Point 3:	

Source: Schroders

To assist the analysts during this scoring of the individual stakeholder categories, we draw upon three proprietary ESG tools developed by Schroders – the **Context** data itself, **SustainEx** and **CarbonVar**. These tools do not have any direct link to the scores, but they are an important reference to help inform the debate, provide guidance and act as a sanity check.

2. **Leading to an individual score/ranking for 'E' 'S' and 'G'.** As a result of the answers in step 1, we end up with a qualitative rating (Very Weak to Very Strong) for each of 'E', 'S' and 'G'. The 'E' and the 'G' score are a direct output of the score assigned to the Environment and Governance & Management categories respectively. The 'S' rating is an arithmetic average of the ratings that have been assigned to the other four stakeholder categories that we scored in step 1.

3. **An overall numerical ESG score.** In order to help us generate a final numerical ESG score for each company ranging from 10% (weakest) to 90% (strongest), our qualitative ratings of the six stakeholder categories are assigned a quintile numerical score as follows:

Chart: ESG scoring bands

ESG Scoring Bands	
Very Weak	10%
Weak	30%
Moderate	50%
Strong	70%
Very Strong	90%

Source: Schroders

We then take the quintile scores for the six stakeholder categories and weight them according to our Context stakeholder weights to generate our final numerical score for each company.

We have set the Governance weight at 40% for all companies as we feel that evaluating management quality, their alliance with us as minority investors, and their attitude to ESG issues is the probably the most important judgment we need to make as investors. Strong management teams should also be better placed to deal with the 'E' and 'S' issues they face in their industries and demonstrate leadership in these areas.

After fixing the 'G' weight at 40% for all companies, we assign the 60% balance to the other five stakeholder categories by prorating the Context weights that our ESG team in London provides. This ensures that the scores we have assigned to the stakeholder categories that we deem to be the most material have more influence on the final score. For example, the Environmental weight for an oil and gas company will be 35%, whereas it will be as low as 5% for a bank. These weights will be reviewed over time.

4. **And a concise summary of the material issues.** The scoring and the discussion involved in reaching that scoring is then all brought together in our "Overall ESG assessment" summary (see Chart below). By answering a further ten questions, we are left with a concise summary of the main ESG issues/risks for each company, whether these risks are rising or falling and how they could impact the ROIC/SRC. We are also left with the agenda for future engagement with the company.

Chart: Overall ESG assessment summary

Ticker			
Company Name			
Country			
Industry			
		SIM Score	Quintile
Headline E score	Moderate	50%	Q3
Stakeholder Weight	12%		
Headline S score	Moderate	50%	Q3
Stakeholder Weight	48%		
Headline G score	Moderate	50%	Q3
Stakeholder Weight	40%		
Total ESG score	**Moderate**	**50%**	**Q3**

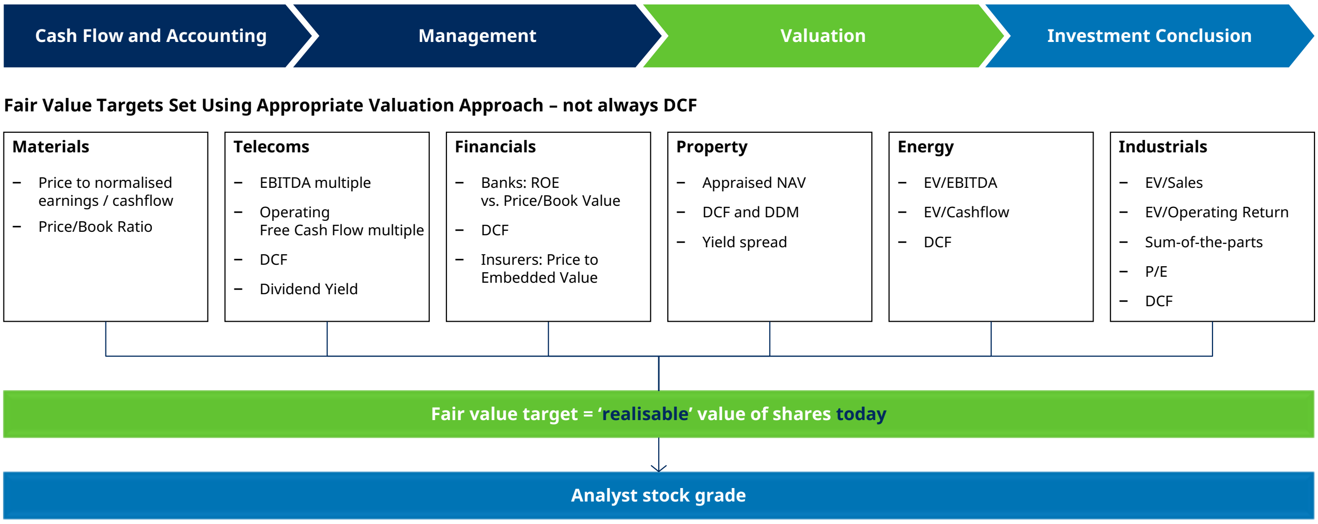
Overall ESG assessment	Moderate
What is the overall direction of ESG travel - is the company improving/ deteriorating?	Steady state
Have you included an explicit ESG premium/ discount in your Fair Value calculation?	No, implicit in forecasts
Is there a comprehensive CSR/ Sustainability report?	Yes but lacking in data/ insights, box ticking?
How seriously do management take ESG/ Sustainability issues?	Aware: but could do more
Due to ESG considerations alone, what is your conviction on meeting your forecast ROIC (SRC)?	Low conviction meet
What is your Shareholder Return Classification (SRC)?	Superior
Offer your view on what is material from an ESG perspective, both positive and negative, and how does this impact your long term ROIC trend?	
1. What is/are the most material tail risk(s) you have identified and their likelihood?	
2. How does your ESG analysis impact your view of the attractiveness of the business and your SRC?	
3. What is your view of the level of commitment that manangement has to ESG and Sustainability issues?	
4. What are the details of your proposed engagement and what colour are you seeking?	

Source: Schroders. For illustrative purposes only and should not be viewed as a recommendation to buy or sell.

Valuation and Stock Grading

We have now identified the long-term direction of a company (Strategic Assessment), classified the ROIC (SRC and Asia Context) and determined an explicit ESG score (Asia Context). The final stage of our fundamental bottom-up research process is to calculate the Fair Value for each stock. We define the fair value as the fundamental worth of the company today based on best, base-case estimates. Our analysts use a variety of methods to evaluate companies as shown in the chart below. The relative emphasis of the valuation tool used will vary depending on the market and industry in which the company operates as well as the analysts own experience. Our approach to valuation is pragmatic. We believe that no one valuation measure should be used in isolation. Discounted cash flow (DCF) is one of the primary measures analysed, as this captures a company moving through the normal phases of growth, maturity, and decline, ensuring that valuations do not capture excess returns in perpetuity.

Chart: Fundamental Analysis and Valuation Approach



Source: Schroders.
For illustrative purpose only, it does not represent any recommendation to invest or disinvest in the above-mentioned sectors.

Our fair value estimates are not necessarily share price targets. We acknowledge that share prices will oscillate around the fundamental worth of a company, but we do not want our analysts to corrupt their fair value estimates based on market conditions. To put it differently, a fair value estimate should remain our best estimate of the fundamental worth of the company but analysts communicate with fund managers via their written work (including asymmetric risk scenarios) the likely share price range (around their fair value) they expect to see or believe is possible. This communication will include a tolerance for companies with a Superior SRC being held in portfolios despite trading at an acceptable premium to fair value.

ESG analysis impacts our fair value analysis in two ways:

– Indirectly/implicitly. A company's SRC (underpinned by our ESG analysis) will influence the assumptions used in calculating a fair value estimate. For instance, a company with a 'Superior' SRC would justify the analyst applying more optimistic assumptions in their DCF analysis (such as a longer "fade" period) or a higher valuation multiple in order to capture the sustainability of the company's business model. In short, we will be more aggressive (or less conservative) in valuing the quality companies we have identified.

– Directly/explicitly. Our ESG analysis can lead to an analyst applying an explicit premium or discount to a company's fair value estimate. In the case of a company that has attracted a 'Very Weak' rating for 'E', 'S', 'G' or total ESG score, analysts must make an explicit reference to this in their recommendation and fair value estimate. This is our attempt to recognise (and second guess, to some degree) the market trend of rewarding companies that are deemed good ESG candidates with a "valuation halo" and punishing those that are deemed poor ESG candidates with corresponding discounts (irrespective of what their ROIC looks like today).

By being inextricably embedded in our SRC framework, our ESG analysis helps determine our fair value estimates as well as the scenario analysis that determines the range around that fair value estimate that we expect share prices to trade.

After determining the Fair Value for each stock under coverage, analysts grade their stocks from 1 to 4 relative to their local market benchmark, with a '1' Grade reflecting a strong belief that the stock will outperform and a '4' Grade a strong conviction that the stock will underperform. Stock ratings reflect a balance between our analysts' view of the quality of the company and its fair value in the marketplace. This grading tool has been most useful in communicating the relative attraction of stocks and analyst's conviction.

With the **SRC**, our **ESG score**, the **Fair Value estimate** and the **Grade** we are then able to build conviction around the best opportunities for inclusion in portfolios.

Chart: Example of how our ESG scores are displayed in research notes

<Security Name>
<Bloomberg code>

Schroders

Equity Research
<Analyst name> ,
<Date>

Share Price	12.28 HKD	SIM Holding	0.99%	SIM Total ESG	50% (Q3)
Market Grade	2	SRC	Transition Positive	SIM E / S / G	30% (Q4) / 50% (Q3) / 50% (Q3)
Fair Value	16.20 HKD	FV Premium/(Discount)	29.39%	Previous FV	10.70 HKD

Source: Schroders. For illustrative purposes only and should not be viewed as a recommendation to buy or sell.

Step 3 - Portfolio construction

Stock selection

Our Asia ex-Japan equity fund management team selects the most attractive investment opportunities, primarily relying on internal research inputs and stock gradings from the analysts. We then apply a sustainability lens on these opportunities by focussing on better quality companies ("Sustainable Companies") and those that are contributing positively to Planet, People and Society ("Sustainable Living"). The portfolio typically holds between 50-70 stocks.

The Shareholder Return Classification forms the basis of our long-term portfolio positioning with the objective of being overweight Superior and Positive Transition stocks, subject to valuation. We then determine each stock's active position in the portfolio, using the Fair Value of the stock (relative to the current share price) and the analyst's Grade (1-4), as key determinants. For example; a stock classified as 'Superior' that is trading below its Fair Value and which has a Grade of '1' will typically be held at a maximum overweight position, while a 'Superior' company trading closer to fair value with a '2' Grade would usually have a smaller active load.

Valuation and the stock Grades combined with the Shareholder Return Classification drive the weighting of stocks in the portfolios. Stocks classified as 'Inferior' or stocks graded as '4' are typically not held in portfolios.

The analysts and portfolio managers work together closely when selecting stocks, debating assumptions and scenarios and stress testing valuations to increase conviction within the team about the recommendations. In addition to the merits of an individual stock idea, portfolio managers will also take into consideration the overall balance of the portfolio when selecting stocks and sizing positions – looking at overall sector and country weights as well as balancing exposure to different style factors, where relevant. Stocks will not be included in the fund unless management has been visited by one of the analysts or the portfolio manager.

If a company is rated as 'Very Weak' in any of the individual 'E', 'S', 'G' or overall rating then there is a single-stock limit as well as an aggregate exposure cap in portfolios. In the case of a single-stock position, this means an active limit of 200bps. The aggregate limit on the exposure to such situations will be 1,000bps absolute weighting in regional portfolios and 1,000bps active weighting for country portfolios. Although companies may have weak scores, there are occasions when such holdings can still be justified on the basis of upside potential from improving ESG scores in future or where we feel that the risk/reward opportunity in the stock is sufficiently skewed in our favour to outweigh other concerns. However, we are conscious to ensure that their potential impact on portfolios is limited – hence the limits imposed.

The buy decision is primarily driven by the conviction that a stock is fundamentally undervalued and there are catalysts to narrow the gap between the current share price and Schroders fair value assessment. Individual stock weights are a factor of analyst Grades, strength of conviction of the stock outperforming the benchmark, upside potential, and the stock's contribution to total portfolio risk at the stock and sector level. The fund manager has full discretion over the strategies and funds under their management and may actively adjust their portfolios to reflect investment opportunities as they arise. As fund managers and analysts work very closely together on a day-to-day basis, investment ideas arising from analyst research can be reflected in client portfolios on a timely basis.

Stocks will be reviewed with a view to sell when:

- A company is trading at or above the top of our analyst's assessment of its fair value target.
- A more attractive investment opportunity is identified.
- There is a change to management strategy or there is a material change in the ESG score or associated risks.
- A major sale of assets or divisions has occurred.
- There is an unexpected structural change to an industry in which the company is involved.

Determine Sector and Country Tilts

Schroders believes that within Asia, the most value can be added from identifying quality companies with strong fundamentals. As such, sector and country positions are largely the fall-out of our bottom-up stock selection process. Where appropriate, the portfolio manager may adjust positions at the portfolio construction stage to ensure alignment with the portfolio's objectives and risk parameters.

Step 4 - Portfolio Implementation

All trades are processed through our pre-trade screening systems before being transferred to our specialist Central Dealing Team in Singapore for implementation. Dealing systems and trading activity are monitored by the Compliance and Risk Department on an on-going basis. The Compliance and Risk Team also monitor client account holdings against their investment restrictions on a monthly basis.

Execution costs and commissions are minimised through active management of our broker relationships and the use of our own professional trading team. We make use of a variety of different trading techniques (e.g. algorithmic or block trades) and venues to drive dealing costs down. Where appropriate, programme trading is used to package transactions together in order to achieve beneficial prices through economies of scale and diversification. Further, our use of trade cost analysis helps us modify our trading methods to improve trading performance; for example, finding the optimal speed of release of orders to the market or choice of venue.

3.6 How often is the ESG evaluation of the issuers reviewed? How are any controversies managed?

Our local analysts will update the Asia Context template as and when new information arises or when we change our opinion on the materiality of a risk or how it should be scored. We will republish a template as and when there has been a significant change in the total ESG score and/or a significant change in the individual ratings for 'E', 'S' and 'G'. In the absence of material developments, we still expect analysts to review their Asia Context scores on an annual basis.

Ticker			
Company Name			
Country			
Industry			
		SIM Score	Quintile
Headline E score	Moderate	50%	Q3
Stakeholder Weight	12%		
Headline S score	Moderate	50%	Q3
Stakeholder Weight	48%		
Headline G score	Moderate	50%	Q3
Stakeholder Weight	40%		
Total ESG score	Moderate	50%	Q3

Overall ESG assessment	Moderate
What is the overall direction of ESG travel - is the company improving/ deteriorating?	Steady state
Have you included an explicit ESG premium/ discount in your Fair Value calculation?	No, implicit in forecasts
Is there a comprehensive CSR/ Sustainability report?	Yes but lacking in data/ insights, box ticking?
How seriously do management take ESG/ Sustainability issues?	Aware: but could do more
Due to ESG considerations alone, what is your conviction on meeting your forecast ROIC (SRC)?	Low conviction meet
What is your Shareholder Return Classification (SRC)?	Superior
Offer your view on what is material from an ESG perspective, both positive and negative, and how does this impact your long term ROIC trend?	
1. What is/are the most material tail risk(s) you have identified and their likelihood?	
2. How does your ESG analysis impact your view of the attractiveness of the business and your SRC?	
3. What is your view of the level of commitment that manangement has to ESG and Sustainability issues?	
4. What are the details of your proposed engagement and what colour are you seeking?	

Source: Schroders.

Although the fund's sustainability and ESG characteristics are based on proprietary research and analysis, third-party ESG ratings, and changes to these ratings, are also reviewed on a quarterly basis.

When a controversy is identified, our Sustainable Investment team acts as a central point of liaison for analysts and fund managers across Schroders who may have exposure to the company in a variety of instruments. Our ESG specialists are responsible for assessing the impact of the incident, drawing on a wide body of information from direct contact with the company to insights gained from our Data Insights Unit. Together with analysts and fund managers, they will agree a programme of engagement to understand why the incident occurred, and what remedial steps have been/will be taken to prevent the incident from reoccurring. In the context of this fund, the Asia ex Japan Equities team will discuss the controversy and evaluate whether the company's response is appropriate. Where we feel that the company is not managing the incident well, we may escalate engagement and possibly collectively engage to push for change; alternatively we may decide to divest. As lead portfolio manager, Manish Bhatia ultimately has responsibility for assessing the impact of controversies on the fund and necessary or warranted portfolio action.

Section 4 Investment process

4.1 How are the results of the ESG research integrated into portfolio construction?

As noted in Step 2 and Step 3 of the Investment Process in question 3.5 above specific to our ESG analysis if a company is rated as 'Very Weak' in any of the individual 'E', 'S', 'G' or overall rating then there is a single-stock limit as well as an aggregate exposure cap in portfolios. In the case of a single-stock position, this means an active limit of 200bps. The aggregate limit on the exposure to such situations will be 1,000bps absolute weighting in regional portfolios and 1,000bps active weighting for country portfolios. Although companies may have weak scores, there are occasions when such holdings can still be justified on the basis of upside potential from improving ESG scores in future or where we feel that the risk/reward opportunity in the stock is sufficiently skewed in our favour to outweigh other concerns. However, we are conscious to ensure that their potential impact on portfolios is limited – hence the limits imposed.

Stocks will be reviewed with a view to sell when:

– A company is trading at or above the top of our analyst's assessment of its fair value target.

– A more attractive investment opportunity is identified.

– **There is a change to management strategy or there is a material change in the ESG score or associated risks.**

– A major sale of assets or divisions has occurred.

– There is an unexpected structural change to an industry in which the company is involved.

4.2 How are criteria specific to climate change integrated into portfolio construction?

We integrate environmental related risks into our company analysis. Where relevant, the carbon profile and risk of a company is considered as part of our fundamental research and our analysts will incorporate such considerations into their final view on the security. This may be a more significant consideration for companies within certain industries/sub-industries e.g. Oil and Gas. If we believe there could be material carbon risk, an analyst may have lower conviction and/or apply a discount to valuation, which may in turn influence position sizing within the portfolio or whether the security is included at all.

While we do not explicitly manage the strategy towards a specific outcome relating to climate change, issues relating to climate change affect our thinking around the companies and sectors in which we invest. We explicitly exclude coal from our portfolios, while companies in 'dirty' industries will generally have climate risk considerations factored into their long-term growth assumptions (or have discounts applied directly against their fair value estimates). Conversely, companies and industries with positive climate attributes (ie. renewable energy businesses) generally score favourably given the tailwinds supporting their long-term growth. ESG considerations, including climate change, are incorporated throughout our investment process and, where relevant, will impact our analysts' views on the long-term prospects for the business. The Asian Equities team do incorporate effects of climate into our company valuation.

In addition to the standard industry metrics around environment risks such as carbon emission and intensity, Schroders has developed our own proprietary models - SustainEx and CarbonVaR, which provide a more robust framework assessing both environmental and overall sustainability risks. As part of our fundamental research process on companies, analysts are provided with the relevant SustainEx and CarbonVaR analysis which allow the team to come up with standardized scoring in various sustainability criteria for individual businesses. These analyses would then serve as a valuable prompt and sanity-check as analysts impose their fundamental / qualitative views on critical "E" and "S" issues. These tools are also key to providing the capability to run additional ex-post ESG analysis on the whole portfolio in allowing the team to have a top-down view on the overall level of sustainability risks of the portfolio.

Carbon Value at Risk

Carbon Value at Risk (Carbon VaR) is another tool developed by the Sustainable Investment team to help our fund managers and analysts better understand how carbon pricing could affect company profitability. It estimates the impact on companies' earnings of raising carbon prices to $100 a tonne, based on their current emissions, business models, cost structures and elasticity of demand.

The Carbon Value at Risk model allows the team to consider the impacts through a range of different lenses. At the sector level, the model shows the extent to which companies are impacted (positively or negatively) from rising carbon prices. Analysts may overlap their fundamental views with the outputs of our Carbon VaR model, generating insights into how carbon pricing may play out as an investment risk across the board. As a risk management tool at the portfolio level, the model may be used as a standalone measure or comparatively across portfolios or against market benchmarks. The model provides the necessary information for fund managers to form a view of portfolio risk, as well as the ability to look into the details within sectors and industries that contribute to that risk. At a more granular level, fund managers can also see which companies are likely to be most severely impacted.

SustainEx

SustainEx is a proprietary model which scientifically combines measures of both the harm companies can do and the good they can bring to arrive at an aggregate measure of each firm's social and environmental impact, allowing investors to target their ESG investments effectively. It quantifies the extent to which companies are in credit or deficit with the societies to which they belong, and the risks they face if the costs they externalise are pushed into companies' own costs.

4.3 How are the issuers that are present in the portfolio, but not subject to ESG analysis evaluated (not including mutual funds)?

All holdings that are present in the portfolio are subject to ESG analysis.

4.4 Has the ESG evaluation or investment process changed in the last 12 months?

There have been no changes to our ESG evaluation or investment process over the last 12 months.

4.5 Is a part of the fund(s) invested in entities pursuing strong social goals/social enterprises?

While positive social impact is not the primary objective of the strategy, our process will likely result in a positive skew towards companies that actively take their stakeholders and society as a whole, into account.

The strategy aims to deliver capital growth through an actively-managed Asia Pacific ex Japan equity portfolio grounded in sustainability characteristics, focusing on "Sustainable Companies" as well as "Sustainable Living" companies.

We define **"Sustainable Companies"** as companies which possess superior stakeholder relationships and superior/improving ROIC profiles.

We define **"Sustainable Living"** companies as companies which are contributing positively to the Planet, People, and Society.

- **Planet:** Companies involved in mitigating the impact of climate change on the planet or ensuring sustainable use of the planet's resources. These could be companies involved in renewable energy generation or the transition away from traditional fossil fuels, as well as companies which minimise deforestation for production of raw materials. Companies involved in carbon capture and storage technology, hydrogen and fuel cell technology, or in the supply chain of energy-efficient mobility solutions (EVs, batteries etc.) would also be considered under this category.
- **People and Society:** Companies which raise the standard of living for its consumers or the broader society which it operates in. These could be companies which pursue innovation (particularly in technology or investing in R&D) which improves productivity, provide healthcare, facilitate education, or promote physical fitness/mental wellbeing.

The Investment Manager applies sustainability criteria when selecting investments for the Fund.

The investable universe is assessed using a number of proprietary tools, as well as external rating services. Companies being considered for investment are assessed on a stakeholder-based approach against criteria including, but not limited to (1) good governance practices; (2) impact on the environment and local communities; and (3) fair and equitable treatment of employees, suppliers and customers.

In the portfolio construction process, companies that fall into the bottom quintile based on the Investment Manager's overall sustainability score will not be eligible for inclusion in the first instance. However, if, based on proprietary analysis and ongoing engagement with a company, the Investment Manager believes that the company is taking concrete steps to transition out of business segments that have not met the sustainability criteria or to improve their relevant areas of weakness, the company may be deemed eligible for investment.

The Investment Manager ensures that at least 90% of companies in the Fund's portfolio are rated against the sustainability criteria. As a result of the application of sustainability criteria, at least 20% of the Fund's potential investment universe is excluded from the selection of investments.

For the purposes of this test, the potential investment universe is the core universe of issuers that the Investment Manager may select for the Fund prior to the application of sustainability criteria, in accordance with the other limitations of the Investment Objective and Policy. This universe is comprised of equity and equity related securities of companies in Asia Pacific markets or companies which derive a significant proportion of their revenues or profits from the Asia Pacific region.

4.6 Does (do) the fund(s) engage in securities lending activities?

No, the fund does not engage in securities lending.

4.7 Does (do) the fund(s) use derivative instruments?

As stated in Appendix I of the Schroder ISF prospectus, derivatives (including futures, swaps and forwards) may be used for the purpose of efficient portfolio management of the fund's assets or used to provide protection against exchange rate risks under the conditions and within the limits laid down by law, regulation and administrative practice.

4.8 Does (do) the fund(s) invest in mutual funds?

The fund does not invest in mutual funds.

Section 5 ESG controls

5.1 What internal and/or external control mechanisms are in place to ensure compliance of the portfolio with the ESG rules on managing the fund as defined in section 4?

Portfolios are reviewed and monitored on an ongoing basis by the fund managers.

Specific to our ESG analysis, if a company is rated as 'Very Weak' in any of the individual 'E', 'S', 'G' or overall rating then there is a single-stock limit as well as an aggregate exposure cap in portfolios. In the case of a single-stock position, this means an active limit of 200bps. The aggregate limit on the exposure to such situations will be 1,000bps absolute weighting in regional portfolios and 1,000bps active weighting for country portfolios. Although companies may have weak scores, there are occasions when such holdings can still be justified on the basis of upside potential from improving ESG scores in future or where we feel that the risk/reward opportunity in the stock is sufficiently skewed in our favour to outweigh other concerns. However, we are conscious to ensure that their potential impact on portfolios is limited – hence the limits imposed.

The investment team uses Aladdin as their global compliance monitoring system. The Aladdin platform combines sophisticated risk analytics with comprehensive portfolio management, trading and operations tools on a single platform to enable informed decision-making, effective risk management, efficient trading and operational scale.

Exclusions are coded into Aladdin to ensure that pre-trade compliance correctly flags the securities that should not enter the portfolio. Securities excluded based on revenue thresholds are evaluated quarterly by the Sustainable Investment team using MSCI's revenue data. The coding and monitoring of investment risk restrictions for individual fund and client mandates is the responsibility of the Portfolio Compliance team within the independent Investment Risk function.

The data in Aladdin forms the basis for monitoring of risk limits and indicators, and the latest information on portfolio structure (such as asset allocation, sector and country positions) and risk metrics is easily available. Users of Aladdin are able to build customised reports to focus on specific aspects of the portfolio.

In 2020, the process of reviewing and challenging of ESG risks was embedded into the existing governance structure provided by the Asset Class Risk and Performance Committees (ACRPCs). Every portfolio is mapped to an ACRPC. These committees meet quarterly and are attended by senior employees from both the First and the Second lines of defence (Head of Investment, Asset Class Heads) supported by members of their direct management team, Product Governance and Second Line Group Risk and Compliance.

The ACRPCs serve as a formal venue for review and challenge and they complement day-to-day oversight processes. In this context, ESG risk is treated as a core risk lens in the same way as other core risk measures such as liquidity, exposure concentration, active risk and performance. ESG discussions cover both helicopter views at the portfolio level, along with review and challenge on individual holdings.

A key tool used to support ESG risk analysis (both at the ACRPC level and on a day-to-day basis) is the ESG Risk Dashboard. This provides transparency on the ESG risk profile of a portfolio and highlights where a portfolio may have exposure to positions with heightened ESG risks. It incorporates both internal measures based on our proprietary tools as well as raw (published) company data and external measures such as MSCI ESG scores. Ultimately, it allows users to immediately identify the individual positions that drive the portfolio-level ESG scores. The Dashboard is used by our investment teams as well as the Group Risk function to consider the sustainability characteristics of the underlying portfolio compared to its benchmark. It was made available to all investment teams in the second quarter of 2020.

Section 6 Impact measures and ESG reporting

6.1 How is the ESG quality of the fund(s) assessed?

Our integrated approach to ESG as part of our overall investment processes means that making a formal assessment of the impact of ESG factors on performance is difficult, but we believe it has had a positive impact. In our experience successful investment is intrinsically linked to identifying, understanding and incorporating the effects of ESG trends in our idea generation, analysis, portfolio construction and ownership. While ESG issues are sometimes difficult to quantify, these factors can have a material impact on a company's performance both in the short and long term, as well as the inherent risk of investing in a company. Therefore we firmly believe analysing a company's exposure to, and management of, ESG factors, in addition to traditional financial analysis, will enhance our understanding of a company's fair value and ability to deliver sustainable returns.

However, we do systematically monitor the ESG performance of our funds via our ESG Risk Framework. The framework incorporates a combination of proprietary metrics, third party ratings and raw company data. Below we have outlined each set of metrics and why we have included them in the framework. As we would do with traditional financial performance, all of the following sustainability performance measures are assessed on a benchmark-relative basis (with the exception of unconstrained funds).

Proprietary tools

Our proprietary tools SustainEx and Carbon VaR are currently available across our equity and fixed income portfolios. We have chosen the outputs of these tools to form part of our framework as they are closely aligned to our firm's sustainable investment approach and therefore a useful way of assessing the sustainability performance of our funds.

SustainEx paper –
https://www.schroders.com/en/sysglobalassets/digital/insights/2019/pdfs/sustainability/sustainex/sustainex-short.pdf

External data

We monitor MSCI third party ratings of our funds to ensure we gain a holistic view on the sustainability performance of our funds. Just as we do not claim SustainEx in isolation to be the silver bullet to assessing sustainability or impact, we do not believe third party ratings alone offer a complete assessment of a fund's sustainability. Insofar as these are tools many market participants are using, it is important we monitor portfolios through those third party lenses to ensure where our views differ materially, the reasons for those differences are highlighted and understood.
We recognise that a number of our clients typically look to third party ratings to understand the sustainability profile of a fund. By including these ratings in our own risk framework, we ensure that our fund managers understand what is driving those ratings and communicate this effectively with clients.

We also measure the fund's carbon footprint (CO_2e emissions). Using CO_2 emissions and third party ratings within our framework allows us to assess performance of our funds not only against one another, but also against those of our peers.

These proprietary and external metrics are neatly displayed side by side in an internal online dashboard. The dashboard is interactive, allowing users to see overall scores on an absolute, weighted or benchmark-relative basis. The dashboard also provides breakdowns by sector, issuer and absolute or weighted metric performance for each portfolio against each individual metric. As mentioned above, this helps fund managers easily understand what is driving positive/negative performance. It also supports Desk Heads and Asset Class Heads in their oversight responsibilities, our Risk function in their governance responsibilities, and will be key for future product design and evolution to meet our clients' needs.

6.2 What ESG indicators are used by the fund(s)?

As noted in our previous responses, we acknowledge that the third party rating providers such as MSCI and Sustainalytics do produce ratings on the fund based on their specific methodology. That being said, these ratings are primarily driven by quant-based models and these data vendors often lack analyst resource on the ground to conduct deep fundamental analysis on companies' business models or engage company management in in-depth discussions on sustainability on a regular basis.

Our approach to ESG is has always been one that is pragmatic and focused on deep fundamental analysis by our analysts. We believe that given the breadth and depth of our research team and ongoing access to companies and their management (which external providers often lack), we are better placed to evaluate issues facing companies within our coverage. As outlined above, we collaborate with the Sustainable Investment team in London and leverage their resources and insights. This is wide ranging from providing insights such as the stakeholder lens, to supplying data for Asia Context, using the proprietary ESG tools provided (SustainEx) to supplying thematic research that helps improve our knowledge of ESG issues, shape conversations with management, and can influence our final opinion and action on a stock.

SustainEx sustainability measure:

6.3 What communication resources are used to provide investors with information about the SRI management of the fund(s)?

Please find below a list of documents we produce to provide investors with information about the SRI approach of the fund:

Monthly fact sheet, which includes:

– A valuation of assets

– Asset allocation positioning

– Financial ratios

– The largest individual stock positions

– Portfolio and benchmark performance

– SustainEx overall portfolio score for portfolio and benchmark

– Carbon intensity

– Select ESG metrics relevant to People and Planet

Full fund holdings are also available upon request subject to NDA agreements.

As mentioned earlier, Schroders has a dedicated Sustainability webpage (http://www.schroders.com/en/about-us/sustainability/) which contains the following:

– Statement of compliance with the UN Principles for Responsible Investment
– Details of industry involvement
– Quarterly Sustainable Investment Report
– Annual Sustainable Investment Report
– Information on screening and firm-wide exclusions
– Sustainability insights on a range of environmental, social and governance topics
– Historical voting reports

6.4 Does the fund management company publish the results of its voting and engagement policies? If so, please include links to the relevant activity reports.

Yes. We believe that clear and ongoing communication to clients and other stakeholders on our ESG and stewardship activities is important. We publicly report on our engagement and voting activities in our annual and quarterly Sustainable Investment reports, and include case studies. We also publicly disclose our global voting activity.

Schroder ISF Sustainable Asian Equities : Risk Factors
The following risks may affect fund performance. Counterparty risk: The fund may have contractual agreements with counterparties. If a counterparty is unable to fulfil their obligations, the sum that they owe to the fund may be lost in part or in whole. Currency risk: The fund may lose value as a result of movements in foreign exchange rates. Derivatives risk – efficient portfolio management and investment purposes: Derivatives may be used to manage the portfolio efficiently. A derivative may not perform as expected, may create losses greater than the cost of the derivative and may result in losses to the fund. The fund may also materially invest in derivatives including using short selling and leverage techniques with the aim of making a return. When the value of an asset changes, the value of a derivative based on that asset may change to a much greater extent. This may result in greater losses than investing in the underlying asset. Emerging markets & frontier risk: Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets. IBOR risk: The transition of the financial markets away from the use of interbank offered rates (IBORs) to alternative reference rates may impact the valuation of certain holdings and disrupt liquidity in certain instruments. This may impact the investment performance of the fund. Liquidity risk: In difficult market conditions, the fund may not be able to sell a security for full value or at all. This could affect performance and could cause the fund to defer or suspend redemptions of its shares. Operational risk: Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the fund. Performance risk: Investment objectives express an intended result but there is no guarantee that such a result will be achieved. Depending on market conditions and the macro economic environment, investment objectives may become more difficult to achieve. Stock connect risk: The fund may be investing in China "A" shares via the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect which may involve clearing and settlement, regulatory, operational and counterparty risks. Sustainability risk: The fund has environmental and/or social characteristics. This means it may have limited exposure to some companies, industries or sectors and may forego certain investment opportunities, or dispose of certain holdings, that do not align with its sustainability criteria. Therefore, the fund may underperform other funds that do not apply similar criteria. The fund may invest in companies that do not reflect the beliefs and values of any particular investor.

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